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中 彩 網 通 控 股 有 限 公 司

China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8071)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (“**Directors**”) of China Netcom Technology Holdings Limited (“**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s www.chinanetcomtech.com.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

HIGHLIGHTS

- The unaudited revenue of the Group for the six months ended 30 June 2011 was approximately HK\$1,282,000 with an increase of approximately HK\$196,000 as compared with that for the corresponding period in 2010.
- The Group recorded an unaudited loss attributable to owners of the Company of approximately HK\$114,909,000 for the six months ended 30 June 2011, which increased by approximately HK\$105,847,000 as compared with that for the corresponding period in 2010.
- The unaudited loss per share for loss attributable to owners of the Company was approximately 1.27 cents for the six months ended 30 June 2011.

RESULTS

The board of Directors (“**Board**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months and six months ended 30 June 2011 together with the comparative figures for the corresponding periods in 2010 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2011

		(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	Notes	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue	3	611	546	1,282	1,086
Cost of sales		<u>(1,094)</u>	<u>(506)</u>	<u>(2,256)</u>	<u>(996)</u>
Gross (loss)/profit		(483)	40	(974)	90
Other income and gains		587	29	909	41
Administrative expenses		(8,278)	(3,306)	(16,827)	(9,287)
Loss on early redemption of promissory note		–	–	(51,960)	–
Finance costs	5	(25,395)	–	(49,924)	–
Share of loss of an associate		<u>(3)</u>	<u>–</u>	<u>(17)</u>	<u>–</u>
Loss before tax		(33,572)	(3,237)	(118,793)	(9,156)
Income tax credit/(expense)	6	<u>611</u>	<u>(1)</u>	<u>1,217</u>	<u>(6)</u>
Loss for the period	7	<u>(32,961)</u>	<u>(3,238)</u>	<u>(117,576)</u>	<u>(9,162)</u>
Other comprehensive income, net of income tax					
Exchange differences on translating foreign operations		17,575	11,197	24,762	11,027
Share of other comprehensive income of an associate		<u>5</u>	<u>–</u>	<u>7</u>	<u>–</u>
Other comprehensive income for the period, net of income tax		<u>17,580</u>	<u>11,197</u>	<u>24,769</u>	<u>11,027</u>
Total comprehensive income/ (expense) for the period		<u>(15,381)</u>	<u>7,959</u>	<u>(92,807)</u>	<u>1,865</u>
Loss attributable to:					
Owners of the Company		(31,559)	(3,192)	(114,909)	(9,062)
Non-controlling interests		<u>(1,402)</u>	<u>(46)</u>	<u>(2,667)</u>	<u>(100)</u>
		<u>(32,961)</u>	<u>(3,238)</u>	<u>(117,576)</u>	<u>(9,162)</u>
Total comprehensive income/ (expense) attributable to:					
Owners of the Company		(18,957)	7,959	(97,597)	1,912
Non-controlling interests		<u>3,576</u>	<u>–</u>	<u>4,790</u>	<u>(47)</u>
		<u>(15,381)</u>	<u>7,959</u>	<u>(92,807)</u>	<u>1,865</u>
Loss per share for loss attributable to owners of the Company	8				
– Basic and diluted (HK cents per share)		<u>(0.35)</u>	<u>(0.07)</u>	<u>(1.27)</u>	<u>(0.23)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		(Unaudited) 30 June 2011 HK\$'000	(Audited) 31 December 2010 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	2,565	2,113
Goodwill		420,892	402,016
Other intangible assets		764,237	746,897
Interest in an associate		333	343
Available-for-sale investment		118	118
		<u>1,188,145</u>	<u>1,151,487</u>
Current assets			
Trade and other receivables	10	11,092	1,672
Amount due from a non-controlling interest of a subsidiary		271	457
Pledged bank deposit		210	210
Cash and bank balances		208,271	348,172
		<u>219,844</u>	<u>350,511</u>
Current liabilities			
Trade and other payables	11	5,020	13,028
Amount due to a non-controlling interest of a subsidiary		217	212
Current tax liabilities			3
		<u>5,237</u>	<u>13,243</u>
Net current assets		<u>214,607</u>	<u>337,268</u>
Total assets less current liabilities		<u>1,402,752</u>	<u>1,488,755</u>
Non-current liabilities			
Convertible bonds	12	98,325	90,944
Promissory note	13	554,450	559,948
Deferred tax liabilities		127,207	125,926
		<u>779,982</u>	<u>776,818</u>
Net assets		<u>622,770</u>	<u>711,937</u>
Capital and reserves			
Share capital	14	9,076	9,059
Reserves		298,112	391,905
		<u>307,188</u>	<u>400,964</u>
Equity attributable to owners of the Company		307,188	400,964
Non-controlling interests		315,582	310,973
Total equity		<u>622,770</u>	<u>711,937</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Equity attributable to owners of the Company									
	Share capital	Share premium	Capital redemption reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2010 (Audited)	3,626	1,475,357	1	–	18,486	(4,732)	(49)	(459,550)	1,033,139	1,034,982
Loss for the period (Unaudited)	–	–	–	–	–	–	–	(9,062)	(9,062)	(9,162)
Other comprehensive income for the period (Unaudited)	–	–	–	–	–	10,974	–	–	10,974	11,027
Total comprehensive income/(expense) for the period (Unaudited)	–	–	–	–	–	10,974	–	(9,062)	1,912	1,865
Recognition of equity-settled share-based payments (Unaudited)	–	–	–	–	3,537	–	–	–	3,537	3,537
Issue of new ordinary shares (Unaudited)	559	58,157	–	–	–	–	–	–	58,716	58,716
Transaction costs attributable to issue of new ordinary shares (Unaudited)	–	(441)	–	–	–	–	–	–	(441)	(441)
Issue of ordinary shares under share option scheme (Unaudited)	142	24,196	–	–	(6,769)	–	–	–	17,569	17,569
Balance at 30 June 2010 (Unaudited)	4,327	1,557,269	1	–	15,254	6,242	(49)	(468,612)	1,114,432	1,116,228

Equity attributable to owners of the Company

	Equity attributable to owners of the Company										
	Share capital	Share premium account	Capital redemption reserve	Convertible bonds equity reserve	Share options reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2011 (Audited)	9,059	2,553,718	1	87,788	14,136	82,016	(49)	(2,345,705)	400,964	310,973	711,937
Loss for the period (Unaudited)	-	-	-	-	-	-	-	(114,909)	(114,909)	(2,667)	(117,576)
Other comprehensive income for the period (Unaudited)	-	-	-	-	-	17,312	-	-	17,312	7,457	24,769
Total comprehensive income/(expense) for the period (Unaudited)	-	-	-	-	-	17,312	-	(114,909)	(97,597)	4,790	(92,807)
Non-controlling interests arising on acquisition of a subsidiary (Unaudited)	-	-	-	-	-	-	-	-	-	(181)	(181)
Recognition of equity-settled share-based payments (Unaudited)	-	-	-	-	1,230	-	-	-	1,230	-	1,230
Issue of ordinary shares under share option scheme (Unaudited)	17	3,369	-	-	(795)	-	-	-	2,591	-	2,591
Balance at 30 June 2011 (Unaudited)	9,076	2,557,087	1	87,788	14,571	99,328	(49)	(2,460,614)	307,188	315,582	622,770

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2011

	(Unaudited)	
	Six months ended	
	30 June	
	2011	2010
	HK\$'000	HK\$'000
Net cash used in operating activities	(25,297)	(37,381)
Net cash used in investing activities	(115,865)	(35,544)
Net cash (used in)/generated by financing activities	<u>(97,409)</u>	<u>75,844</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(238,571)	2,919
Cash and cash equivalents at the beginning period	336,116	11,422
Effect of foreign exchange rate changes, net	<u>726</u>	<u>(262)</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	<u>98,271</u>	<u>14,079</u>
ANAYLSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	208,271	14,079
Short-term time deposits	<u>(110,000)</u>	<u>—</u>
	<u>98,271</u>	<u>14,079</u>

Notes:

1) BASIS OF PREPARATION

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provisions of the GEM Listing Rules.

These unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2010, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) as disclosed in note 2 to this announcement.

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

2) SIGNIFICANT ACCOUNTING POLICIES

In the current interim period, the Group has applied the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2011:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised standards, amendments and interpretations has no significant impact on the results and financial position of the Group.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ⁴
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
HKAS 1(Revised)	Presentation of Financial Statements ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (as revised in 2011)	Employee Benefits ⁴
HKAS 27 (as revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ⁴

Notes:

- ¹ Effective for annual periods beginning on or after 1 July 2011.
- ² Effective for annual periods beginning on or after 1 January 2012.
- ³ Effective for annual periods beginning on or after 1 July 2012.
- ⁴ Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The Group is in the process of making an assessment of the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 1 (Revised), HKAS 19 (as revised in 2011), HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011) but is not yet in a position to state whether these new standards and amendments would have significant impact on the consolidated financial statements.

The Directors anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3) REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold and services rendered arising from the principal activities of the Group during the six months ended 30 June 2011.

4) SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

- (a) Staff secondment business – Staff secondment to generate income from the staff performing system integration for the external party;
- (b) Trading of computer hardware and software business – Trading of computer hardware and software in the People's Republic of China (“**PRC**”);
- (c) Exploration of mines business – Exploration of gold mines in the PRC; and
- (d) Lottery business – Development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC and development and provision of operation software system sector of the PRC lottery market.

	Staff secondment		Trading of computer hardware and software		Exploration of mines		Lottery business		Consolidated	
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:										
Sales to external customers	<u>-</u>	<u>93</u>	<u>1,049</u>	<u>993</u>	<u>-</u>	<u>-</u>	<u>233</u>	<u>-</u>	<u>1,282</u>	<u>1,086</u>
Segment loss	<u>-</u>	<u>(35)</u>	<u>(96)</u>	<u>(55)</u>	<u>(643)</u>	<u>(484)</u>	<u>(107,306)</u>	<u>-</u>	<u>(108,045)</u>	<u>(574)</u>
Interest and other income									909	41
Central administration costs									<u>(11,657)</u>	<u>(8,623)</u>
Loss before tax									<u>(118,793)</u>	<u>(9,156)</u>

There were no material changes to total assets and liabilities from the amounts disclosed in the last annual report.

5) FINANCE COSTS

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Bank interest expense	1	–	1	–
Effective interest on convertible bonds	3,711	–	7,381	–
Effective interest on promissory note	21,683	–	42,542	–
	<u>25,395</u>	<u>–</u>	<u>49,924</u>	<u>–</u>

6) INCOME TAX (CREDIT)/EXPENSE

Income tax recognised in profit or loss

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Current tax:				
PRC Enterprise Income Tax	–	1	–	6
Deferred tax:				
Current year	(611)	–	(1,217)	–
	<u>(611)</u>	<u>1</u>	<u>(1,217)</u>	<u>6</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 15% and 25% (2010: 25%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Group did not have significant unprovided deferred tax liabilities at 30 June 2011 and 31 December 2010.

7) LOSS FOR THE PERIOD

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period has been arrived at after charging/(crediting):				
Crediting:				
Bank interest income	<u>(547)</u>	<u>(28)</u>	<u>(868)</u>	<u>(32)</u>
Charging:				
Cost of goods sold*	1,094	459	2,256	913
Cost of services provided**	–	47	–	83
Auditors' remuneration	200	80	400	160
Employee benefits expense (excluding directors' emoluments):				
– Salaries and other benefits	3,023	406	4,646	825
– Contributions to retirement benefits scheme	77	6	140	16
– Equity-settled share-based payments	–	–	1,230	3,537
Directors' emoluments	1,838	864	3,667	1,728
Minimum lease payments paid under operating leases in respect of:				
– Land and buildings	634	153	1,036	375
Net foreign exchange loss	189	–	336	–
Depreciation	178	52	304	105

* Cost of goods sold for the three months and six months ended 30 June 2011 included approximately Nil (2010: Nil) and HK\$1,209,000 (2010: Nil) respectively relating to employee benefits expense. This amount is included in both "Cost of goods sold" and "Employee benefits expense" disclosed above.

** For the three months and six months ended 30 June 2010, cost of services provided included approximately HK\$47,000 and HK\$83,000 respectively relating to employee benefits expense while nil is included for the three months and six months ended 30 June 2011. Such amount is included in both "Cost of services provided" and "Employee benefits expense" disclosed above.

8) LOSS PER SHARE

The calculation of the basic loss per share is based on the unaudited loss attributable to owners of the Company during the three months and six months ended 30 June 2011 of approximately HK\$31,559,000 and HK\$114,909,000 respectively (three months and six months ended 30 June 2010 of approximately HK\$3,192,000 and HK\$9,062,000 respectively) and weighted average number of approximately 9,076,175,000 ordinary shares of the Company during the three months ended 30 June 2011 and approximately 9,072,982,000 ordinary shares of the Company in issue during the six months ended 30 June 2011 (three months and six months ended 30 June 2010: approximately 4,279,535,000 and approximately 3,976,127,000 respectively).

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme adopted by the Company on 29 June 2007 ("Share Option Scheme") and convertible bonds since their exercise and conversion would have an anti-dilutive effect.

9) PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
Net book value, beginning of the period/year	2,113	277
Additions	709	850
Disposals	–	(208)
Acquisition through business combination	6	1,478
Depreciation	(304)	(331)
Effect of foreign currency exchange differences	41	47
	<u>2,565</u>	<u>2,113</u>
Net book value, end of the period/year	<u>2,565</u>	<u>2,113</u>
Cost	3,848	3,062
Accumulated depreciation	<u>(1,283)</u>	<u>(949)</u>
Net book value, end of the period/year	<u>2,565</u>	<u>2,113</u>

10) TRADE AND OTHER RECEIVABLES

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
Trade receivables	93	–
Prepayment, deposits and other receivables	<u>10,999</u>	<u>1,672</u>
	<u>11,092</u>	<u>1,672</u>

A defined credit policy is maintained within the Group. The Group allows a credit period of 45 days (2010: 30 days to 90 days). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the senior management of the Group.

The following is an ageing analysis of net trade receivables at the end of the reporting period:

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
0 – 30 days	<u>93</u>	<u>–</u>

Included in the balance of prepayment, deposits and other receivables of the Group at 30 June 2011 was a deposit of approximately HK\$8,702,000 in relation to the acquisition of additional equity interest in Shenzhen Huancai Puda Technology Company Limited* (深圳環彩普達科技有限公司) (“**Huancai Puda**”), further details were set out in the announcements of the Company dated 2 March, 9 March and 31 May 2011.

11) TRADE AND OTHER PAYABLES

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
Trade payables	132	5
Other payables and accruals	<u>4,888</u>	<u>13,023</u>
	<u>5,020</u>	<u>13,028</u>

The following is an ageing analysis of trade payables at the end of the reporting period:

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
0 – 60 days	132	2
61 – 90 days	–	1
Over 90 days	<u>–</u>	<u>2</u>
	<u>132</u>	<u>5</u>

* For identification purpose only

12) CONVERTIBLE BONDS

Imputed interest expenses of approximately HK\$3,711,000 (three months ended 30 June 2010: Nil) and HK\$7,381,000 (six months ended 30 June 2010: Nil) respectively have been recognised in the unaudited consolidated statement of comprehensive income in respect of the convertible bonds for the three months and six months ended 30 June 2011.

As at 30 June 2011, the carrying amount of the liability component of the convertible bonds at amortised cost was approximately HK\$98,325,000 (31 December 2010: HK\$90,944,000).

13) PROMISSORY NOTE

During the six months ended 30 June 2011, the Company early redeemed part of the promissory note with a principal amount of approximately HK\$100,000,000 and incurred an early redemption loss of approximately HK\$51,960,000 (six months ended 30 June 2010: Nil).

The amortised and imputed effective interest expenses of promissory note amounting to approximately HK\$21,683,000 and HK\$42,542,000 was charged to the unaudited consolidated statement of comprehensive income for the three months and six months ended 30 June 2011 respectively (three months and six months ended 30 June 2010: Nil).

14) SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised:		
At 31 December 2010, ordinary shares of HK\$0.001 each (Audited)	<u>100,000,000</u>	<u>100,000</u>
At 30 June 2011, ordinary shares of HK\$0.001 each (Unaudited)	<u>100,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 31 December 2010, ordinary shares of HK\$0.001 each (Audited)	9,059,175	9,059
Exercise of share options (Unaudited)	<u>17,000</u>	<u>17</u>
At 30 June 2011, ordinary shares of HK\$0.001 each (Unaudited)	<u>9,076,175</u>	<u>9,076</u>

15) INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

16) ACQUISITION OF A SUBSIDIARY

On 27 April 2011, the Group completed the acquisition of 65% equity interest in Beijing Caiyingle Technology Company Limited* (北京市彩贏樂科技有限公司) (“**Beijing Caiyingle**”), for a consideration of RMB7,750,000.

Assets and liabilities recognised at the date of acquisition:

	<i>HK'000</i>
Property, plant and equipment	6
Prepayment, deposits and other receivables	170
Cash and bank balances	9
Other payables and accruals	(530)
Amount due to a group company	(120)
Amount due to a former shareholder	(52)
	<u>(517)</u>

Goodwill arising on acquisition	<i>HK'000</i>
Consideration transferred	9,232
Less: non-controlling interests	(181)
Add: fair value of identifiable net assets acquired	517
	<u>9,568</u>

Net cash outflow arising on acquisition of subsidiaries

	<i>HK'000</i>
Cash consideration paid	9,232
Less: cash and bank balances acquired	(9)
	<u>9,223</u>

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in the development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the PRC, and development and provision of operation software system sector of the PRC lottery market, trading of computer hardware and software and exploration of gold mine in the PRC.

After completion of the acquisition of 51% equity interest in Huancai Puda, which is principally engaged in the development and provision of value-added operation software system related to lottery business, by the Group in August 2010 and the change of name of the Company in January 2011, the Company was actively seeking opportunities to expand the network of the lottery market in the PRC. The Company had identified various kinds of potential projects with different parties to expand the lottery-related business in the PRC after completion of the aforesaid acquisition of Huancai Puda:

1. On 2 March 2011, Greatest Profit Investment Limited (“**Purchaser**”), an indirect wholly-owned subsidiary of the Company, Century Profit Holdings Limited (“**Vendor**”) and Mr. Lin Zhiwei, being a director of Huancai Puda and therefore a connected person of the Company, and the other two beneficial shareholders of the Vendor (collectively, the “**Warrantors**”) entered into an acquisition agreement regarding the acquisition of 49% equity interests of Huancai Puda (“**Acquisition**”) which is currently an indirect non-wholly owned subsidiary of the Company, at a consideration of RMB73,500,000. Upon completion, Huancai Puda will become an indirect wholly-owned subsidiary of the Company. The Acquisition constitutes a connected and major transaction for the Company. Details of the Acquisition were set out in the announcements of the Company dated 2 March, 9 March and 31 May 2011.

A circular regarding further details of the Acquisition is expected to be despatched to the shareholders of the Company (“**Shareholders**”) on or before 31 August 2011.

2. On 2 March 2011, Huancai Puda entered into a letter of intent (“**Letter of Intent**”) with Hainan Province Welfare Lottery Issuing Centre* (海南省福利彩票發行中心) (“**HPWLIC**”) regarding the development of telephone welfare lottery sales system and banking system for the welfare lottery sales system, the commencement of short messages, tones, interactive voice responses (IVR) and other services of phone (including mobile phones and fixed-line phones) as well as mobile phone welfare lottery sales service within the administrative region of Hainan province. Further details were set out in the announcement of the Company dated 7 March 2011.

* For identification purpose only

3. On 16 May 2011, Huancai Puda entered into an agreement with Guangzhou Zhujiang Online Multimedia Company Limited* (廣州珠江在線多媒體信息有限公司) (“**Guangzhou Zhujiang Online**”), a wholly-owned subsidiary of Guangzhou Zhujiang Digital Group Company Limited* (廣州珠江數碼集團有限公司), a state-owned enterprise, regarding the development of interactive TV lottery service. Further details were set out in the announcement of the Company dated 19 May 2011.
4. Huancai Puda entered into a memorandum of understanding (“**MOU**”) with Shanghai Jinse Pingdao Cultural Media Limited* (上海金色平道文化傳媒有限公司) (“**Jinse Pingdao**”), an affiliate of Shanghai Media Group* (上海文廣傳媒集團) to pursue interactive TV lottery on the Xingfu lottery channel, in June 2011. It is only made possible because of the Group’s success in providing interactive TV lottery to Chongqing, Guangxi, Guangzhou and Shenzhen. This is a key development for the Group because Xingfu lottery channel’s coverage covers over 300 cities in the PRC with viewership exceeding 15 million. By cooperating with Jinse Pingdao, the Company can extend the coverage or market share quickly and effectively. Further details were disclosed in the announcement of the Company dated 22 July 2011.

Following completion of the acquisition of interests (“**Acquisition of Interest**”) in Beijing Caiyingle on 27 April 2011, Beijing Caiyingle has become an indirect non-wholly owned subsidiary of the Company. With the existing co-operative agreements in respect of the provision of instant lottery sales and distribution services at local airports and in related regions in the PRC entered with a number of lottery centres by Beijing Caiyingle which also committed to evolving into a national distribution management agent for lottery sales centres in airports, the Board is optimistic that the Acquisition of Interest will generate revenue for the Company due to the potential growth of passenger traffic volumes in the PRC airports and the rapid increase of lottery sales. The Board also considered that the Acquisition of Interest will provide synergies in conjunction with lottery sales services business that was acquired by the Group in August 2010 and that it will consolidate the Company’s presence and business development in the provision of services in the PRC lottery market which is in line with the long term strategy of the Company.

In respect of the resources update in the gold mine, the preliminary estimates of potential metal resources in the gold mine is approximately 10 tonnes based on the results of a geological exploration survey* (地質物化探普查設計) conducted by a surveyor in December 2010.

Prospect

The lottery market in the PRC continues to be very robust with total lottery sales up 31% year on year for the first six months of 2011. The industry continues open up and develop at a fast pace. There is tremendous amount of opportunities in this industry as the PRC government continues to promote legal gaming.

* For identification purpose only

As the Group is committed to developing new channels in the lottery market, Huancai Puda has cooperated with various parties to support the development of the lottery-related business of the Group for the six months ended 30 June 2011, and it:

1. entered into the Letter of Intent with HPWLIC as previously disclosed in the “Business review”;
2. entered into the MOU with Jinse Pingdao as previously disclosed in the “Business review”; and
3. entered into a memorandum of understanding with Scientific Games Worldwide Limited, the world’s leading producer of instant lottery tickets and the service provider of the top-scratching lottery tickets of the China Sports Lottery Administration Centre, in the beginning of this year regarding the cooperation in self-service terminal field, electronic Bingo, digital TV lottery field and equipment generation and to obtain the network entry permit license which relates to the Group’s national deployment of embedded betting station. This is the first of many tie-ups that the Group will have with Scientific Games which has significant influence in the PRC. Further details were disclosed in the announcement of the Company dated 22 July 2011.

These partnerships are significant milestones for the Group and it lays the foundation for the Group to expand into these new lottery channels. Looking forward, we will continue to expand our strong business relationship and management expertise to continue developing innovative lottery channels in the PRC. The Board strongly believes that the high growth in the lottery sector will be coming from these new channels.

In addition, a joint venture was formed with China Digital Library Limited Company* (中國數字圖書館有限責任公司) (“**China Digital Library**”), details of which were disclosed in the “EVENTS AFTER THE REPORTING PERIOD” below, and capital will be injected into Zhongshu Huanyu Technology (Beijing) Limited* (中數寰宇科技(北京)有限公司), Shenzhen Tencent Computer Systems Company Limited* (深圳市騰訊計算機系統有限公司) and CCTV International Network Co., Ltd* (央視國際網絡有限公司) to develop internet protocol television (IPTV) in the PRC. Such cooperation signifies a significant milestone for the Group. Not only is the Group able to cooperate with such esteemed partners in such a major project in the PRC, it also demonstrates the Group’s abilities to create key business relationship with major players.

EVENTS AFTER THE REPORTING PERIOD

1. On 21 July 2011, Multi Joy Corporation Limited (“**Multi Joy**”), a wholly-owned subsidiary of the Company, and China Digital Library entered into a joint venture agreement (“**JV Agreement**”) to form Zhongshu Sanwang Technology (Beijing) Limited* (中數三網科技(北京)有限公司) (“**JVC**”), of which 49% and 51% to be owned by Multi Joy and China Digital Library respectively, in the PRC to engage in the development and application of computer software, hardware and application system; development, application and operation of multi-media and information technology, sales of self-developed technology and related technology; and information consulting services.

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The total investment amount and the registered capital of the JVC are RMB100,000,000 and RMB40,816,000 respectively. The transaction contemplated under the JV Agreement constitutes a discloseable transaction for the Company under the GEM Listing Rules. Further details were set out in the announcements of the Company dated 22 July and 26 July 2011.

2. As mentioned in the “Business review”, a circular regarding further details of the acquisition of 49% equity interests of Huancai Puda is expected to be despatched to the Shareholders on or before 31 August 2011.
3. On 28 July 2011, Huancai Puda entered into a framework agreement (“**Framework Agreement**”) with Guangzhou Luyin Investment Co., Limited* (廣州魯銀投資有限公司) (“**Guangzhou Luyin**”) to co-operate in the development of digital TV lottery sales projects. Guangzhou Luyin has the exclusive operation right of Central Digital Lottery Purchasers Online Channel* (中央數字電視彩民在綫頻道) (“**Lottery Purchasers Online**”) which is a nationwide paid TV channel specializing in lottery services. Lottery Purchasers Online was founded by Shanxi Radio and Television Station* (山西廣播電視台) and approved by the State Administration of Radio Film and Television (國家廣播電影電視總局). It currently covers over 24 provinces such as Guangdong Province (廣東省), Hubei Province (湖北省), Hunan Province (湖南省), Liaoning Province (遼寧省), Jilin Province (吉林省), Shandong Province (山東省), Hainan Province (海南省), Shanxi Province (山西省) and Hebei Province (河北省) and more than 300 cities and has over 80 million audiences in the PRC. Programs are rotationally broadcasted in Lottery Purchasers Online for 15 hours a day. The Framework Agreement targeted at enlarging the market share and increasing the profitability of the digital TV lottery sales projects operated by the parties. Further details of the Framework Agreement were set out in the announcement of the Company dated 8 August 2011.

Financial review

For the three months and six months ended 30 June 2011, the Group recorded an unaudited revenue of approximately HK\$611,000 and HK\$1,282,000 with an increase of approximately 12% and an increase of 18% as compared with those figures in the corresponding periods in 2010 respectively. The revenue of the Group was primarily derived from the trading of computer hardware and software business and lottery business.

For the six months ended 30 June 2011, the unaudited loss attributable to owners of the Company increased by approximately HK\$105,847,000 as compared with that for the corresponding period in 2010. The difference was mainly because of the increase in expense for the loss on early redemption of promissory note and finance cost for the six months ended 30 June 2011.

Capital structure

As at 30 June 2011, the Company had 9,076,175,247 ordinary shares of HK\$0.001 each (each a “**Share**”) (30 June 2010: 4,327,165,247 Shares) in issue.

* For identification purpose only

Issue of new Shares under the Share Option Scheme

On 5 January 2011, 4,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.2656 which were granted on 10 July 2008.

On 20 January 2011, 4,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.1176 which were granted on 10 December 2009.

On 27 January 2011, 5,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.1176 which were granted on 10 December 2009.

On 31 March 2011, 4,000,000 Shares were allotted and issued to a consultant of the Group due to the exercise of share options at the exercise price of HK\$0.1176 which were granted on 10 December 2009.

Grant of share options

On 15 February 2011, the Company granted 15,000,000 share options to an employee of the Group at an exercise price of HK\$0.3330 per Share. The share options would be exercisable during the period from 15 February 2011 to 29 June 2017. Details of the grant of share options were set out in the Company's announcement dated 15 February 2011.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares	Number of underlying Shares	Total number of Shares and underlying Shares	Approximate percentage of issued share capital
Mr. Leung Ngai Man ("Mr. Leung")	Beneficial owner	2,483,105,000	795,416,666 (Note 1)	3,278,521,666	36.12%
	Through a controlled corporation	1,474,400 (Note 2)	–	1,474,400	0.02%
Mr. Ng Kwok Chu, Winfield ("Mr. Ng")	Beneficial owner	472,500	10,000,000 (Note 3)	10,472,500	0.12%
Ms. Wu Wei Hua ("Ms. Wu")	Beneficial owner	–	10,000,000 (Note 4)	10,000,000	0.11%

Notes:

1. Mr. Leung was issued convertible bonds in an aggregate principal amount of HK\$797,500,000 on 27 August 2010 at a conversion price of HK\$0.24 per share. Upon full conversion of the convertible bonds, a maximum of 3,322,916,666 Shares will be issued to Mr. Leung. As at 30 June 2011, convertible bonds in the amount of HK\$190,900,000 remains outstanding. The interests constitute a long position of the Director in a physically settled equity derivative for the purpose of the SFO.
2. These Shares were held by Speedy Well Investments Limited ("**Speedy Well**") which was wholly and beneficially owned by Mr. Leung. By virtue of the SFO, Mr. Leung was deemed to be interested in the Shares held by Speedy Well.
3. On 10 July 2008, Mr. Ng was granted share options, pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares at an exercise price of HK\$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the consolidation of every two shares in the issued and unissued share capital of the Company into one consolidated share of HK\$0.001 each which became effective on 21 October 2008 ("**Share Consolidation**"), the relevant subscription price was adjusted from HK\$0.1328 to HK\$0.2656 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 Shares.
4. On 10 July 2008, Ms. Wu was granted share options, pursuant to the Share Option Scheme to subscribe for a total of 20,000,000 shares at an exercise price of HK\$0.1328 per share. The options would be exercisable during the period from 10 July 2008 to 29 June 2017. As a result of the Share Consolidation, the relevant subscription price was adjusted from HK\$0.1328 to HK\$0.2656 per Share and the number of Shares falling to be issued under the outstanding share options was adjusted from 20,000,000 shares to 10,000,000 Shares.

Save as disclosed above, as at 30 June 2011, none of the Directors and chief executive of the Company had any other interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken that was required to be recorded pursuant to section 352 of the SFO) or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDER IN THE SHARES AND UNDERLYING SHARES

Save as disclosed above, as at 30 June 2011, no person or company (other than the Directors and chief executive of the Company whose interests are set out in the section “DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION” above) had an interest or short positions in the Shares, underlying Shares and debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO and was directly or indirectly interested in 5% or more of the nominal value of any class of the share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme and refreshed its 10% limit on the grant of options on 9 April 2009 and 20 April 2010. The principal purpose of the Share Option Scheme is to motivate and give incentive to the eligible participants as defined in the Share Option Scheme for their contribution to the Group.

For the six months ended 30 June 2011, detailed movements relating to options granted under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Effective exercise price	Exercise period	As at 01.01.2011	Movement of share options (adjusted) during the period			As at 30.06.2011
					Granted	Exercised	Lapsed	
Consultants	09.07.2007	0.2850	09.07.2007 – 29.06.2017	48,000,000	–	–	–	48,000,000
	22.08.2007	0.4060	22.08.2007 – 29.06.2017	41,000,000	–	–	–	41,000,000
	10.07.2008	0.2656	10.07.2008 – 29.06.2017	40,000,000	–	4,000,000	–	36,000,000
	10.12.2009	0.1176	10.12.2009 – 29.06.2017	13,000,000	–	13,000,000	–	–
Employee	15.02.2011	0.3330	15.02.2011 – 29.06.2017	–	15,000,000	–	–	15,000,000
Directors								
– Mr. Ng	10.07.2008	0.2656	10.07.2008 – 29.06.2017	10,000,000	–	–	–	10,000,000
– Ms. Wu	10.07.2008	0.2656	10.07.2008 – 29.06.2017	10,000,000	–	–	–	10,000,000

No option granted under the Share Option Scheme has been cancelled during the six months ended 30 June 2011.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed above, so far as is known to the Directors, there is no other person who has an interest or short position in the Shares and underlying Shares that is discloseable under the section 336 of the SFO.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. As at the date of this announcement, the audit committee comprises two independent non-executive Directors, namely, Dr. Leung Wai Cheung (chairman of the audit committee) and Mr. Cai Wei Lun.

The Group's interim results for the six months ended 30 June 2011 has been reviewed by the audit committee which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the Shareholders.

During the period under review, the Company has complied with the code provisions and certain recommended best practices in the Code on Corporate Governance Practices (“**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules except for the following:

1. Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board is performed by Mr. Leung who possesses essential leadership skills and has extensive knowledge in the business of the Group. The Board believes that vesting the role of the chairman in Mr. Leung provides the Company with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of benefits to the Shareholders.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company was performed by Mr. Leung and all the executive Directors whom have extensive experience in the business of the Group. Their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is still looking for a suitable candidate to fill the vacancy in order to comply with the CG Code.

2. Board composition

Note 1 to Code Provision A.3 refers to rule 5.05 of the GEM Listing Rules, which stipulates that every board of directors of a listed company must include at least three independent non-executive directors.

Following the resignation of Mr. Wang Jun Sui as an independent non-executive Director and a member of the audit committee of the Company on 31 March 2010 and up to the date of this announcement, the number of independent non-executive Directors and audit committee members of the Company fell below the minimum number required under rules 5.05(1) and 5.28 of the GEM Listing Rules respectively. The Company is in the process of identifying a suitable candidate to fill the vacancy in order to comply with the CG Code and the GEM Listing Rules.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions by directors (“**Code**”) which is no less exacting than the required terms for dealings of shares by directors as set out in Rules 5.46 to 5.67 of the GEM Listing Rules. The Company has made specific inquiry with all the Directors, and has not been notified of any non-compliance with the standard for dealings of securities by Directors and the Code during the six months ended 30 June 2011.

COMPETING INTERESTS

During the period under review, none of the Directors, the management Shareholders or substantial Shareholders or any of their respective associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2011.

By Order of the Board
China Netcom Technology Holdings Limited
Ng Kwok Chu, Winfield
Executive Director

Hong Kong, 9 August 2011

As at the date of this announcement, the executive Directors are Mr. Leung Ngai Man, Mr. Ng Kwok Chu, Winfield and Ms. Wu Wei Hua; and the independent non-executive Directors are Dr. Leung Wai Cheung and Mr. Cai Wei Lun.